

ITEM 25 (8)

SEC 80 COM: FIN, MC

**DIRECTORATE BUDGET AND TREASURY: DRAFT BUDGET:
2012/2013 FINANCIAL YEAR AND MTREF FOR 2013/2014 AND
2014/2015**

5/1/1-(2011/2012)

PURPOSE:

The Local Government Municipal Finance Management Act, No. 5 of 2003 Section 16(2) requires the tabling of the budget at least 90 days before the start of the budget year for consideration and adoption.

BACKGROUND:

The budget is prepared to meet the Integrated Development Plan priorities as well as the strategic objectives of the West Rand District Municipality. The Departments have been consulted to enhance the production of a credible balanced budget. The limited available funds require that priorities and strategic objectives should be carefully considered in the preparation and production of realistic credible balanced budget that is capable of being approved and implemented as tabled.

The IDP, as informed by the agreed strategies, is available and enhances alignment with the budget.

Municipal Budget and Reporting Regulations (MBRR), were promulgated on 17 April 2009 as per Government Gazette no. 32141. As part of the regulations a totally new format is also prescribed in which municipalities must submit the budget for adoption and/or approval. This resulted in the re-engineering of the financial database in order to populate the prescribed forms.

Attached as **Annexure**, is the following documentation:

- Tables and Supporting Tables as prescribed.
- Graphs in support of the tables and supporting tables.
- Budget related policies.

The budget makes provision for all the functions and responsibilities of the WRDM as provided for in the 2011/2012 financial year, including the rendering of Emergency Medical Services as well as Municipal Health Services.

The Constitution of the Republic of South Africa has section 156 (1) and (4) which places responsibilities on the municipality. The municipality has

executive authority in respect of, and has the right to administer the local government matters listed in Part B of Schedule 4 and Part B OF Schedule 5; and any other matter assigned to it by national or provincial legislation. The national government and provincial governments must assign to a municipality, by agreement and subject to any conditions, the administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which necessarily relates to local government, if that matter would most effectively be administered locally, and the municipality has the capacity to administer it.

The Honorable Minister responsible for Cooperative Governance and Traditional Affairs (COGTA) has authorized the West Rand District Municipality (WRDM) in January 2003 to perform the Municipal Health Services in the Local Government Municipal Structures Act (MSSA). The authorization was followed by funds from the Equitable Share. The Honorable Member of the Executive Council (MEC) responsible for Local Government adjusted the functions of Fire Fighting, Regulation of Passenger Transport Services and Municipal Roads to the WRDM in terms of MSSA, Section 85. The contribution by the local municipalities equitably towards the rendering of Integrated Emergency Services is of paramount importance in the sound financial sustainability of the WRDM.

1. EXECUTIVE SUMMARY

The following is a concise summary of the draft budget for the 2012/2013 financial year, as contained in Table A1 (Budget Summary):

<u>Description</u>	<u>2012/2013</u>
Operating revenue (incl. accum. funds)	R258 695 000
Operating expenditure	R258 693 000
Share of deficit in the WRDA	R 4 090 000
Total surplus/deficit	R 2 000

2. OPERATING REVENUE

Total operating revenue amounts to R258,695 million (including accumulated funds) and is contained in Table A4 (Budgeted Financial Performance).

2.1 Service charges – other

The main components of revenue from service charges are the rendering of ambulance (R1,6 m) and fire services (R2,2 m) and the sale of electricity to tenants. The budgeted revenue from this source for 2012/2013, amounts to R4,448 million.

2.2 Rent of facilities and equipment

Expected revenue for 2012/2013 amounts to R1,583 million of which the rental of shops (R1,296 million) is the biggest contributor.

2.3 Interest earned – external investments

This source of revenue refers to interest earned on the investment of surplus cash. As it is anticipated that the amount of surplus cash will reduce during 2012/2013 with the progress on roll-over projects and non-distributable reserves, interest earned, compared to the adjustments budget for 2011/2012, is also reduced. An amount of R3,1 million is provided.

2.4 Transfers recognised – operational

Operating grants and subsidies represent the bulk (82%) of the revenue sources of the WRDM.

A breakdown of the grants and subsidies for 2012/2013 is as follows:

RSC Replacement Grant	R 141 879 000 (National)
Equitable Share Allocation	R 25 024 000 (National)
Ambulance Subsidy	R 33 117 000 (Provincial)
Subsidy Payment (WRDA)	R 4 090 000 (WRDM)
Library Networks	R 500 000 (Provincial)
HIV/Aids grant	R 5 783 000 (Provincial)
Finance Management Grant	R 1 500 000 (National)
M S I G	<u>R 1 250 000</u> (National)
Total	<u>R 213 143 000</u>

2.5 Other own revenue

Other revenue amounts to R36,241 million and consists of the following main elements:

- Sale of Refuse Bags	R 1 000 000
- Sale of Plants	R 350 000
- Insurance Claims	R 700 000
- Recreation Revenue	R 150 000
- Training Fund Refunds	R 420 000
- Mogale City Local Municipality Contribution	R 9 027 000
- Merafong City Local Municipality Contribution	R 3 915 000
- Randfontein Local Municipality	R 3 490 000
- Westonaria Local Municipality	R 1 856 000
- Accumulated funds (surplus cash)	R15 000 000

3. OPERATING EXPENDITURE

Operating expenditure, including the West Rand Development Agency, amounts to R258,693 million and is contained in Table A4 (Budgeted Financial Performance) and supported by information in Supporting Table SA1.

More information on operating expenditure is included in the attached supporting tables.

3.1 Employee related costs

Zero-based budgeting, the current personnel structure (salary scales), and the positions that were accommodated in the adjustments budget(as applicable for the 2011/2012 financial year), was used to determine employee related costs for 2012/2013. The following are included:

- Provisional annual salary increase of 8%.
- Provision for annual notch increases where applicable.
- Estimated increase in medical tariffs of 15%.
- Personnel costs related to Municipal Health Services.

Total personnel costs amounts to R157,590 million and represents 60,92 of total operating expenditure. Personnel costs related to Public Safety amounts to R57,501 million (22,2%) and personnel costs related to Emergency Medical Services amounts to R26,545 million (10,3%). The main components associated with personnel costs are contained in Supporting Table SA1.

3.2 Remuneration of Councillors

Provision is made for an increase of 8% in councillor allowances.

3.3 Debt impairment

Debt impairment relates to the provision for working capital regarding Fire Services and Emergency Medical Services to protect the cash position of the WRDM. An amount of R2,980 million has been provided to protect the cash.

3.4 Depreciation

Provision for depreciation for the 2012/2013 financial year, as per the financial policy of the WRDM, amounts to R8,887 million and makes provision for current assets, assets purchased during 2011/2012 and compliance with GRAP17.

3.5 Interest and redemption on external borrowing

This provision is for servicing the current external loan of the WRDM taken up from the Development Bank of South Africa which is redeemable by 30 September 2014. The capital balance of the external loan amounts to R9,718 million as at 30 June 2011.

3.6 Transfers and grants

Transfers and grants amounts to R4,090 million, representing the grant to the West Rand Development Agency.

3.7 Other general expenditure

Other general expenditure amounts to R70,430 million and represents 27,23% of total operating revenue for the 2012/2013 financial year. Detailed information on other general expenditure is provided in Supporting Table SA1.

4. BUDGET ASSUMPTIONS

During the compilation process of the estimates for the 2012/2013 financial year, the following assumptions were made:

- A 8% increase is budgeted for salary adjustment and Councillor Allowances.
- Inflation forecasts as per MFMA Circular No. 58 of 14 December 2011.

5. BUDGET RELATED POLICIES

The following budget related policies are submitted in terms of the provisions contained in the MFMA. Since no changes are recommended to be made to the policies, they are submitted for cognisance.

5.1 Asset Management Policy

Approved under ITEM 40, dated 30 November 2005 (attached as Annexure).

5.2 Banking and Investment Policy

Approved under ITEM 39, dated 30 November 2005 (attached as Annexure).

5.3 Credit Control and Bad Debt Policy

Approved under ITEM 70, dated 30 November 2006 (attached as Annexure).

5.4 Supply Chain Management Policy

Approved under ITEM 111, dated 7 December 2011 (due to the voluminous nature of the document, it is available for inspection at the office of Supply Chain Management Unit (SCMU))

6. BUDGET RELATED MATTERS

6.1 Included in the draft budget of the West Rand District Municipality for 2012/2013, is the ring-fenced entity of the West Rand Development Agency (WRDA).

The WRDA consists of Head Office, Donaldson Dam Recreation Resort, Katlego Arts and Craft, and the Plastic Recycling Plant, with a

- Operating expenditure budget of R7 383 200,
- Operating revenue budget of R7 383 200, and a
- Capital budget of R0.
- Subsidy payment from the WRDM of R4 089 900.
- Recommended contribution from Local Municipalities of R2 000 000.

The main own sources of revenue are the sale of refuse bags in the Plastic Recycling Plant to the amount of R1 000 000.

Operating expenditure is directed towards:

Employee related costs	R2 104 500
Depreciation	R1 417 100
Directors remuneration	R 300 000
Other general expenses	R3 561 600

6.2 As mentioned in the beginning of the report, provision is made in the 2012/2013 budget for the rendering of Municipal Health Services in the area of jurisdiction of the West Rand District Municipality. The total amount for rendering this service, as provided by officials from the Local Municipalities (excluding Mogale City), is R14,108 million. No detailed information has yet been received from Mogale City and a provisional amount of R5 250 000 is included in the budget.

The equitable share allocation is the funding source for the total expenditure related to Municipal Health Services. It is however important to note that the equitable share allocation was used in the past to partially finance the rendering of Fire Services with the result that the allocation to Fire Services is reduced with the same amount.

6.3 After performing a cash reconciliation as at 30 June 2011, based on the audited financial statements for the 2010/2011 financial year, the result is as follows:

Audited cash and investments	R120 696 603
Less:	
Audited liabilities and cash backed reserves	R 47 533 432
Contributions 11/12 budget	<u>R 35 517 000</u>
Surplus cash	<u>R 37 646 171</u>

The draft budgeted deficit (shortfall) for the 2012/2013 financial year amounts to R33,288 million before appropriating the cash surplus and the recommended financial contribution from Local Municipalities.

It is thus recommended to spread the utilization of the cash surplus over the MTREF period in order to sustain the financial viability of the WRDM in the medium-term.

6.4 The budget process started in December 2011 during which Heads of Departments were requested to submit their needs for the 2012/2013 financial year. The first draft from the units resulted in a operating deficit of R111,409 million and a first draft capital budget of R7,8 million. This was unacceptable and the HOD's were requested to have one on one session with the Budget and Treasury Office (BTO) until the deficit was reduced to R33,288 million.

In order to achieve a balanced budget the consideration was made that a portion of the surplus from previous financial years not committed for other purpose be utilized.

6.5 Of critical importance is that the future funding (2012/2013 and 2013/2014) of the budgeted deficit be investigated and addressed before the start of the budget process for the 2013/2014 financial year. In this regard it is recommended that the following options be investigated by the Transformation Committee:

6.5.1 A monetary contribution by Local Municipalities for the rendering of Fire Services in the Region.

6.5.2 De-regionalisation of Fire Services.

6.5.3 Motivation to National Treasury for an increase in the equitable share allocation to the WRDM.

6.5.4 A monetary contribution by Local Municipalities for the rendering of the Emergency Operations Centre.

6.5.5 Contributions by Local Municipalities to enhance the financial viability of the West Rand Development Agency.

RECOMMENDATION THAT:

1. The tabled operating and capital budget of the West Rand District Municipality for the financial year 2012/2013, and indicative amounts for the two projected outer years of 2013/2014 and 2014/2015 be adopted as contained in the following attached schedules:

Operating revenue by standard classification, reflected in Table A2;
Operating expenditure by standard classification, reflected in Table A2;
Capital expenditure by standard classification, reflected in Table A5;
Capital funding by source, reflected in Table A5.

2. Cognisance be taken of the tabled budgeted information for the 2012/2013 financial year and two projected outer years as contained in:

Budget summary: Table A1;
Budgeted financial performance (Municipal vote): Table A3;
Budgeted financial performance (Revenue/Expenditure): Table A4;
Budgeted financial position: Table A6;
Budgeted cash flows: Table A7;
Reserves and surplus reconciliation: Table A8;
Asset Management: Table A9.

3. The local municipalities be requested to contribute an amount of R500 000 each towards Transformation Committee.
4. The local municipalities be requested contribute amounts of R8 527 000 by Mogale City, R2 990 000 by Randfontein, R1 356 000 and R3 415 000 by Merafong City towards the WRDA and Public Safety.
5. The tabled budget of the WRDM for the 2012/2013 financial year, be placed on the WRDM website and be forwarded to all relevant stakeholders as prescribed by the Municipal Finance Management Act.
6. Cognisance be taken of the immediate short-term measures mentioned under paragraph 6 of the report.
7. An amount of R15 000 000 be utilised from accumulated funds in order to achieve a balanced budget.
8. The possibility of shared services regionally, be investigated, especially in IT, Supply Chain Management and Legal Services.

9. The Departments to conduct resource mobilization by submission of business plans to the National or Provincial Government, including donors.
10. Comments from the public and stakeholders be invited on the draft budget and a public participation meeting be held before 21 April 2012.
11. The Mayoral Committee, Municipal Manager and CFO to attend a breakaway session in order to consider remedial measures to accomplish a balanced budget.